

DIRECT TESTIMONY

OF

THERESA EBREY

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

CONSUMERS ILLINOIS WATER COMPANY

DOCKET NO. 03-0556

October 2, 2003

1 **Witness Identification**

2 **Q. Please state your name and business address.**

3 A. My name is Theresa Ebrey. My business address is 527 East Capitol  
4 Avenue, Springfield, Illinois 62701.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am an Accountant in the Accounting Department of the Financial  
7 Analysis Division of the Illinois Commerce Commission ("Commission").

8 **Q. What is the function of the Accounting Department of the Illinois  
9 Commerce Commission?**

10 A. The Department's function is to monitor the financial condition of public  
11 utilities as part of the Commission's responsibilities under Article IV of the  
12 Public Utilities Act ("the Act") and to provide accounting expertise on  
13 matters before the Commission.

14 **Q. Please describe your background and professional affiliation.**

15 A. I have a Bachelor of Science degree in Accounting from Quincy College. I  
16 am a Certified Public Accountant, licensed to practice in the State of  
17 Illinois. My prior accounting experience includes fifteen years as the  
18 corporate controller of a large long-term care facility in Illinois, as well as a  
19 period of time employed as an outside auditor of governmental agencies.  
20 I joined the Staff of the Illinois Commerce Commission ("Staff") in April  
21 1999.

22 **Q. Have you previously testified before this Commission?**

23 A. Yes, I have.

24 **Q. What are your responsibilities in this case?**

25 A. I have been assigned to this case by the Manager of the Accounting  
26 Department of the Illinois Commerce Commission. I am to review  
27 Consumers Illinois Water Company's ("Consumers" or "Company")  
28 Petition for Approval of Proposed Reorganization, analyze the underlying  
29 data and propose adjustments where appropriate.

30 **Purpose of Testimony**

31 **Q. What is the purpose of your testimony in this proceeding?**

32 A. My testimony addresses the following issues:

- 33 1. Consumers' proposed journal entries to record the acquisition of  
34 Oakview Avenue Water Works' assets;
- 35 2. Consumers' calculation of the Required Plant Surcharge ("RPS");
- 36 3. Consumers' proposed journal entries to record the collection of the  
37 RPS;
- 38 4. Consumers' compliance with Sections 7-204(b)(2) and 7-204(b)(3)  
39 of the Public Utilities Act ("Act"), and
- 40 5. Consumers' treatment of savings and costs associated with the  
41 proposed reorganization pursuant to Section 7-204(c) of the Act.

42 **Journal Entries to Record the Purchase**

43 **Q. Do you agree with Consumers' proposed journal entries to record**  
44 **this purchase from Oakview Avenue Water Works?**

45 A. Yes. The revised journal entries provided by Consumers in its Exhibit I  
46 (Second Revised) present the correct entries to record the initial purchase  
47 of the water system. In addition, I recommend the Commission order  
48 Consumers to file its final Journal Entries with the Commission, providing  
49 a copy to the Manager of Accounting, within 30 days of the completion of  
50 the purchase of this property.

51 **Required Plant Surcharge**

52 **Q. What is your opinion of the RPS as calculated by the Company and**  
53 **presented on Exhibit G (Revised)?**

54 A. Staff does not take issue with the calculation of the Estimated RPS as  
55 presented on CIWC Exhibit G (Revised). Once the Required Plant is in  
56 service, the Company should provide the Actual RPS calculation, based  
57 on the same methodology included in Exhibit G (Revised), to the Manager  
58 of Accounting of the Commission along with all documentation in support  
59 of the actual cost of the required plant. Staff will then verify that the  
60 calculation of the RPS is based on actual cost.

61 **Q. Do you agree with Consumers' proposed journal entries to record**  
62 **the proposed RPS collections, as well as how the Required Plant will**  
63 **be recorded while the surcharge is in effect?**

64 A. Yes, I agree with the Company's accounting treatment of required plant  
65 and RPS collections as presented on the Attachment to Revised TEE-003  
66 included in CIWC Exhibit 1.5.

67 **Compliance with Section 7-204(b)(2)**

68 **Q. Describe the requirements of Section 7-204(b)(2).**

69 A. Before approving a proposed reorganization, Section 7-204(b)(2) requires  
70 that the Commission find that the proposed reorganization will not result in  
71 the unjustified subsidization of non-utility activities by the utility or its  
72 customers.

73 **Q. Does Consumer's proposed reorganization comply with the**  
74 **standards in Section 7-204(b)(2)?**

75 A. Yes, as stated on page 11, lines 229 - 231 of CIWC Exhibit 1.0, neither  
76 CIWC nor Oakview engages in a significant level of non-utility activity.  
77 The proposed reorganization will not result in the unjustified subsidization  
78 of non-utility activities by the utility or its customers.

79 **Compliance with Section 7-204(b)(3)**

80 **Q. Describe the requirements of Section 7-204(b)(3).**

81 A. Before approving a proposed reorganization, Section 7-204(b)(3) requires  
82 that the Commission find that costs and facilities are fairly and reasonably  
83 allocated between utility and non-utility activities in such a manner that the  
84 Commission may identify those costs and facilities which are properly  
85 included by the utility for rate making purposes.

86 **Q. Does Consumers' proposed reorganization comply with the**  
87 **standards in Section 7-204(b)(3)?**

88 A. Yes, as stated on page 11, lines 235 - 239 of CIWC Exhibit 1.0, neither  
89 CIWC nor Oakview engages in a significant level of such activity. Further,  
90 should CIWC engage in non-utility activity in the future, it would continue  
91 to maintain its books and records in such a manner as to fairly and  
92 reasonably allocate utility and non-utility activity and allow the Commission  
93 to identify costs and facilities that are properly included for ratemaking  
94 purposes.

95 **Compliance with Section 7-204(c)**

96 **Q. Describe the requirements of Section 7-204(c).**

97 A. Section 7-204(c) states that the Commission shall not approve a  
98 reorganization without ruling on (i) the allocation of any savings resulting

99 from the proposed reorganization; and (ii) whether the companies should  
100 be allowed to recover any costs incurred in accomplishing the proposed  
101 reorganization and, if so, the amount of costs eligible for recovery and how  
102 the costs will be allocated.

103 **Q. Has Consumers addressed Section 7-204(c) in its testimony?**

104 A. Yes.

105 **Q. What is Consumers' position regarding savings resulting from the**  
106 **proposed reorganization?**

107 A. Consumers proposes that all Acquisition Savings included in data for rate  
108 case test years be reflected in rates of the University Park Water Division  
109 and allocated in their entirety to ratepayers (CIWC Exhibit 1.0, p. 6, lines  
110 112 - 115).

111 **Q. What is Consumers' position regarding costs resulting from the**  
112 **proposed reorganization?**

113 A. Consumers estimates transaction costs related to the acquisition to be  
114 \$55,500. These costs are included in the \$20,544 acquisition adjustment,  
115 which will be written off below the line to Account 426 (CIWC Exhibit I  
116 (Second Revised)).

117 **Q. Do you agree with Consumers' proposed treatment of the costs**  
118 **associated with this reorganization?**

119 A. Yes. The costs described by Consumers have been identified in recent  
120 Commission Orders as "transactions costs" and have been disallowed  
121 from recovery from ratepayers.<sup>1</sup> Therefore, I agree with Consumers'  
122 proposed treatment of these "transaction" costs, to be allocated in their  
123 entirety to the Company's shareholders and not recovered in rates (CIWC  
124 Exhibit 1.0, p. 5, lines 110 – 111).

125 **Summary**

126 **Q. Please summarize your recommendations.**

127 A. I recommend as follows:

128 1) That the Commission, in accordance with Section 7-204(c)(i), order that  
129 any cost savings resulting from the reorganization should not increase the  
130 revenue requirement in future rate filings;

131 2) That the Commission, in accordance with Section 7-204(c)(ii), order that  
132 any costs incurred in connection with implementing the proposed  
133 reorganization should be included in the acquisition adjustment and  
134 recorded "below the line" in account 426;

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<sup>1</sup> See Commission Orders in Docket Nos. 98-0545/ 98-0546 (Cons.), 99-0121, 98-055, 98-0866, 99-0418, and 99-457.



135 3) That the final journal entries to record the reorganization be filed with the  
136 Commission, providing a copy to the Manager of Accounting upon  
137 completion of the purchase of this property; and

138 4) That the RPS calculations based on actual cost, as well as all  
139 documentation supporting the actual costs, be provided to the Manager of  
140 Accounting for verification prior to implementation of the RPS once the  
141 Required Plant has been placed in service.

142 **Q. Does this conclude your prepared direct testimony?**

143 **A.** Yes, it does.